

QUALITY LIVING, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2010

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Fred Adom, CPA
Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors,
Quality Living, Inc.
Nashville, Tennessee

We have audited the accompanying statement of financial position of Quality Living, Inc. (a Tennessee not-for-profit corporation) as of December 31, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Quality Living, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for my opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Quality Living, Inc. as of December 31, 2010, and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2012 on our consideration of the Quality Living, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



February 6, 2012

QUALITY LIVING, INC.

STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2010

	<u>2010</u>
Assets	
Current Assets	
Cash and Cash Equivalent	\$ 88,008
Grants Receivable	210,420
Other Receivables	29,500
Total Current Assets	\$ 327,928
Fixed Assets	
Furniture, Fixtures and Equipment	\$ 177,314
Less: Accumulated Depreciation	(136,582)
Total Fixed Assets	\$ 40,732
Total Assets	\$ 368,660
Liabilities and Net Assets	
Current Liabilities	
Accounts payable	\$ 21,907
Income Taxes Payable	147,577
Total Current Liabilities	\$ 169,484
Total Liabilities	\$ 169,484
Net Assets	
Unrestricted Net Assets	\$ 199,176
Temporarily restricted	\$ -
Total Net Assets	\$ 199,176
Total Liabilities and Net Assets	\$ 368,660

QUALITY LIVING, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support from operations:			
Program Services - TN DMRS	\$ 2,495,100		\$ 2,495,100
Total Revenues and other support from operations	\$ 2,495,100	\$ -	\$ 2,495,100
Expenses			
Program Expenses	\$ 1,886,767		\$ 1,886,767
Management and general	651,532		\$ 651,532
Total Operating Expenses	\$ 2,538,299	\$ -	\$ 2,538,299
Change in Net Assets	\$ (43,199)	\$ -	\$ (43,199)
Net Assets, Beginning of Year	\$ 242,375		\$ 242,375
Net Assets, End of Year	\$ 199,176	\$ -	\$ 199,176

QUALITY LIVING, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2010

<u>2010</u>			
	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and Fringe Benefits			
Salaries and Wages	\$ 1,278,698	\$ 504,356	\$ 1,783,054
Employee Fringe Benefits and Taxes	\$ 99,553	35,515	135,068
Total Salaries and Fringe Benefits	\$ 1,378,251	\$ 539,871	\$ 1,918,122
Expenses			
Bank Charges	\$ 8,123	\$ 1,200	\$ 9,323
Consultant	70,784	-	70,784
Equipment Rental & Maintenance	9,800	-	9,800
Events/Special Projects	30,536	-	30,536
Insurance	31,313	3,300	34,613
Meals	7,207	2,532	9,739
Miscellaneous	5,085	1,200	6,285
Occupancy	25,886	-	25,886
Office Expense	20,345	7,150	27,495
Office Lease	-	47,883	47,883
Professional Fees	17,940	6,200	24,140
Receivables Processing Fees	74,457	-	74,457
Repairs & Maintenance	10,900	-	10,900
Supplies	42,837	15,051	57,888
Telephone	26,702	8,858	35,560
Training	2,790	-	2,790
Transportation	3,351	-	3,351
Travel	27,533	-	27,533
Utilities	40,684	-	40,684
Workmen's Compensation	28,366	9,967	38,333
Total Expenses Before Depreciation	\$ 1,862,888	# \$ 643,212	# \$ 2,506,100
Deprecitation and Amortization	\$ 23,879	\$ 8,320	32,199
Total Expenses	\$ 1,886,767	\$ 651,532	\$ 2,538,299

QUALITY LIVING, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2010</u>
Change in Net Assets	\$ (43,199)
Adjustments to reconcile Net Assets to net cash provided by operations:	
Depreciation and Amortization	\$ 32,199
Increase (decrease) in operating assets:	
Accounts Payable	21,907
Decrease in Grants Receivable	15,675
Net Cash Provided by Operating Activities	\$ 26,582
CASH FLOWS FROM INVESTING ACTIVITIES	
Net cash provided by Investing Activities	\$ -
CASHFLOWS FROM FINANCING ACTIVITIES	
Increase (Decrease) In Cash	\$ 26,582
Cash and Cash Equivalents - Beginning of year	61,426
Cash and Cash Equivalents - End of year	\$ 88,008

QUALITY LIVING, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Quality Living, Inc. is a nonprofit organization chartered in the State of Tennessee for the purpose of providing residential and employment services for individuals with developmental disabilities and traumatic brain injuries. The organization is a non-sectarian social service agency licensed and monitored by the State of Tennessee. The organization's programs are specifically designed, to provide information and education and other necessary assistance to enable and enhance the consumers' life activities.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets - net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - net assets subject to donor-imposed restrictions that may or will be met, either by actions of the Organization and/or the passage of time. Restrictions that are fulfilled in the same accounting period in which the contributions are received are reported in the statement of activities as unrestricted. When a restriction expires in a period after the contributions are received, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets - net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned and any related investments for general or specific purposes.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all cash funds, cash bank accounts and highly liquid debt instruments, with an original maturity when purchased of three months or less, to be cash and cash equivalents.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property and Equipment

All acquisition of property and equipment are stated at cost while donated equipment is state at its fair market value on the date of receipt. Property and equipment are depreciated using straight line method over the estimated useful lives of the assets. Depreciation expense for the years ended December 31, 2010 was \$32,199.

Income Taxes

The Organization is a not-for-profit organization exempt from income taxes under Section 501 (c) (3) of the Internal Revenue Code, and the Organization is classified as an organization other than a private foundation. Therefore, no provision for federal income taxes is included in the accompanying financial statements.

Contributions

Under SAS 116, Accounting for Contributions Received and Contributions Made, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the absence or existence and nature of any donor restrictions.

Note B – Related Party Transactions

Other Receivables

Other receivables in the amount of \$29,500 at December 31, 2010 represent loans/employee advances from the organization to employees. Repayments plans have been established to deduct equal amounts of \$500 and \$250 per month from two employees.

Note C – Payroll Taxes Payable

As of December 31, 2010 the organization had liability in the amount of \$146,726. The organization has engaged an agent to negotiate with the Internal Revenue Service to settle the outstanding liability. The negotiations for the settlement have not been finalized.

Note D – Expense Allocation

The costs of providing the organization's primary program and other activities have been summarized on a functional basis in the Statement of Activities and the Statement of Functional Expenses. Accordingly, certain costs have been allocated among program and management general expenses. Management uses the direct cost allocation method to allocate costs among the functional areas.

Note E – Concentrations of Credit Risk

For the year ended December 31, 2010, the organization received all of its revenues and support from the State of Tennessee. If a significant reduction in this level of support were to occur, the organization's program and services could be adversely impacted.

Fred Adom, CPA

Certified Public Accountant

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors,
Quality Living, Inc.
Nashville, Tennessee

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of Quality Living, Inc., (a nonprofit organization) as of and for the year ended December 31, 2010 in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of control deficiencies, in internal control, such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on timely basis.

Our consideration of the internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in the internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However,

providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This communication is intended solely for the information and use of the Board of Directors, management, others within the Organization, and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, consisting of a large, stylized capital letter 'P' with a horizontal line extending from the middle of the vertical stroke, followed by a cursive 'm'.

February 6, 2012